

## Message Text

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PAGE 01 MANILA 14574 210936Z  
ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02  
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H-01 L-03 IO-13 PA-01 /107 W  
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P 210918Z AUG 78  
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USADB

FOR NAC AGENCIES

PASS TREASURY FOR WINDER

EO 11652:NA  
TAGS: EAID, EFIN, ADB  
SUBJECT: SALARY ADJUSTMENTS AND VALUATION OF ADB SHARES

REF: (A) TREASURY 78-117, (B) TREASURY 78-108,  
(C) MANILA 14163

1. ADB PRESIDENT INVITED MEMBERS OF THE BOARD OF DIRECTORS  
TO AN INFORMAL MEETING ON AUGUST 18 TO DISCUSS SALARY  
ADJUSTMENTS AND VALUATION OF ADB SHARES.

2. SPEAKING ON BEHALF OF THE PRESIDENT, VICE-PRESIDENT  
KATZ INDICATED THAT THE THREE ADB GOVERNORS COMPRISING  
THE REMUNERATION COMMITTEE WOULD BE MEETING AT THE BANK  
HEADQUARTERS ON AUGUST 22 AND 23 TO CONSIDER SALARY ADJUST-  
MENTS FOR THE BOARD OF DIRECTORS. HE NOTED THAT DIRECTORS'  
SALARIES HAVE NOT BEEN ADJUSTED IN 20 MONTHS. IT IS CON-  
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PAGE 02 MANILA 14574 210936Z

TEMPLATED THAT THE REPORT OF THE REMUNERATION COMMITTEE  
WILL BE AVAILABLE FOR TRANSMISSION TO THE BOARD OF  
GOVERNORS THROUGH THE BOARD OF DIRECTORS BY THE END OF  
AUGUST. THIS MEANS THAT GOVERNORS' VOTES WOULD BE  
REQUESTED BEFORE THE END OF SEPTEMBER.

3. MEANWHILE, WITH THE RECOMMENDATIONS OF THE REMUNERA-

TION COMMITTEE ON DIRECTORS' SALARIES TRANSMITTED TO GOVERNORS, ADB MANAGEMENT PLANS TO ISSUE A DOCUMENT TO THE BOARD OF DIRECTORS THE FIRST WEEK IN SEPTEMBER WITH RECOMMENDATIONS ON STAFF SALARY ADJUSTMENTS, THE EFFECTIVITY OF WHICH WOULD BE RETROACTIVE TO AUGUST 1. VICE-PRESIDENTS KATZ EXPLAINED THAT ACTION ON STAFF SALARIES IS URGENT BECAUSE OF THE UNDUE COMPRESSION OF SALARIES AT THE TOP STAFF LEVELS.

3. ON THE ISSUE OF TIMING, THE U.S. EXECUTIVE DIRECTOR SAID HIS AUTHORITIES WOULD NOT WISH TO POSTPONE CONSIDERATION OF INCREASES IN DIRECTORS AND STAFF SALARIES UNTIL THE CONCLUSIONS OF THE KAFKA COMMITTEE ON WORLD BANK SALARIES HAVE BEEN REVIEWED. THE COMMITTEE IS EXPECTED TO ISSUE ITS REPORT IN OCTOBER.

4. VICE-PRESIDENT KATZ OBSERVED THAT THE KAFKA EXERCISE RELATES PRIMARILY TO STAFF SALARIES. HE NOTED THAT EDS IN THE WORLD BANK HAD RECEIVED 3-1/2 PERCENT SALARY INCREASES LAST APRIL, WITH ANOTHER 3-1/2 PERCENT BEING HELD IN ABEYANCE UNTIL AFTER THE KAFKA COMMITTEE REPORT IS ISSUED. KATZ ALSO THOUGHT THERE STILL WAS UNCERTAINTY AS TO THE TIMING OF THE KAFKA COMMITTEE REPORT. HE ALSO SAID THE FOCUS OF THE KAFKA REPORT WAS ON STAFF SALARY LEVELS IN WASHINGTON, BRAZIL AND EUROPE AND DOUBTED WHETHER IT COULD HAVE ANY SERIOUS APPLICABILITY TO THE SITUATION IN MANILA.

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PAGE 03 MANILA 14574 210936Z

5. THERE WERE RELATIVELY FEW COMMENTS BY OTHER EDS. THE CANADIAN ED SAID HE WOULD NOT BE SURPRISED THAT THE U.S. ATTITUDES WERE ALSO HELD BY OTHER GOVERNMENTS. THE INDIAN ED THOUGHT SOME GOVERNORS WOULD HAVE STRONG VIEWS ON TIMING. ON THE OTHER HAND, THE AUSTRALIAN ED BELIEVED THAT MANAGEMENT SHOULD DO WHATEVER IT CONSIDERS NECESSARY DESPITE THE VIEWS OF THE U.S. AND CANADIAN DIRECTORS. THE GERMAN ED DOUBTED WHETHER THE KAFKA RECOMMENDATIONS WERE APPLICABLE TO ADB.

6. ON THE ISSUE OF VALUATION OF ADB SHARES, THERE WAS A GENERAL CONSENSUS AMONG EDS IN FAVOR OF THE MANAGEMENT'S VIEW THAT THE ADB QUARTERLY FINANCIAL STATEMENTS SHOULD BE PATTERNED AFTER IBRD FINANCIAL STATEMENTS. WHILE MAKING CLEAR THAT THE U.S. PREFERRED THE ADB TO CONTINUE ITS PRESENT PRACTICE OF VALUING CAPITAL IN ADB FINANCIAL STATEMENTS ON THE SAME TERMS AS IN PREVIOUS ADB FINANCIAL STATEMENTS, THE USED ALSO STATED THAT THE UNITED STATES CONSIDERED IT ESSENTIAL THAT THE NOTES INDICATE THAT THE ISSUES OF UNIT OF VALUE AND MAINTENANCE OF VALUE REMAIN OPEN, IN THE EVENT THE BANK MOVED TO

PATTERN THE FINANCIAL STATEMENTS AFTER THE IBRD. EDMOND

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